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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)  
SUBJECT: RUSSIAN ENERGY: GAS OPEC -- NOT QUITE

Classified By: Econ M/C Pamela G. Quanrud. Reasons 1.4 (b/d).

¶1. (U) Very few in Moscow believed that the April 9 Gas Exporting Countries Forum in Doha would result in a decision to set up an OPEC-like cartel. In the run-up to the meeting, Russia's representative Energy Minister Viktor Khristenko said, "the fact that a cartel agreement on price formation for gas will not be signed in Doha is clear." However, President Putin indicated that he thought the idea was "interesting," doing nothing to dispel rumors that it may actually happen. Referring to Europe's discussions regarding becoming less energy-reliant on Russia, Valery Yazev, concurrently a member of the Duma's energy committee and head of the Russian Gas Association, has accused European bureaucrats of "provoking gas producers to take actions in response."

¶2. (C) Every contact we spoke with downplayed the idea of the formation of a cartel -- at least for now. Ron Smith, head of research at Alfa Bank, said that a cartel would not work because they cannot "squeeze off the flows to support higher prices" given the long-term nature of natural gas contracts. He, and others like Vlad Konovalov, head of the Petroleum Advisory Forum, Shawn McCormick of TNK-BP, and Ed Verona of ExxonMobil, agreed that the Doha discussions were probably more about Russia trying to protect its market share in Europe than about setting prices. All said that OPEC-like price-setting will only occur when liquefied natural gas (LNG) is prevalent enough that there is a true "global price." Smith said this could happen if LNG reaches 25 percent of the global market but that this could be 20 or more years out.

Comment

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¶3. (C) For Russia, the threat of a cartel can be useful. It may provide leverage for Russia in its Partnership and Cooperation Agreement negotiations with the EU. Russian energy policymakers are undoubtedly aware of the market constraints arguing against the formation of a cartel -- the prevalence of long-term contracts and regional, rather than global, pricing structures. Additionally, the fact that gas prices are tied to oil prices adds a further complication. Given this, the results of the gathering -- further discussion about costs and how prices are formed -- is about all the GOR could have expected.

